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Message Text

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41
ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 IGA-02

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 PA-01 PRS-01 INT-05 FEAE-00 AGR-05

EUR-12 EA-07 OES-06 /117 W
---------- 024783
R 061232Z JUL 76
FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC 6966

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E.O. 11652: N/A
TAGS: EFIN, IN, EAID
SUBJECT: WORLD BANK/IDA POLICY TOWARDS INDIA

1. WE UNDERSTAND THAT THE BOARD OF GOVERNORS OF THE WORLD BANK WILL BE MEETING DURING THE SECOND WEEK OF JULY TO CONSIDER WORLD BANK/IDA POLICY TOWARDS INDIA. WHILE OVER THE PAST FEW MONTHS WE HAVE SUBMITTED EXTENSIVE COMMENTS ON INDIA'S INTERNAL AND EXTERNAL POSITION, WE BELIEVE IT MIGHT BE USEFUL TO BRIEFLY RELATE THESE VIEWS TO THE ROLE OF THE WORLD BANK IN INDIA.

2. AS WE HAVE NOTED IN A NUMBER OF REPORTS, MOST RECENTLY A-199 OF JULY 2, THE SUBSTANTIAL IMPROVEMENT IN INDIA'S EXTERNAL POSITION HAS FORCED OBSERVERS TO REEXAMINE THE QUESTION WHY INDIA'S ECONOMIC GROWTH HAS NOT BEEN BETTER. LAST YEAR'S ECONOMIC GROWTH AT ROUGHLY 6.7 PERCENT WAS EXCELLENT COMPARED TO RECENT YEARS BUT IS HARDLY FUNDAMENTAL AND UNLIKELY TO BE CONTINUED IN THE BASENCE OF FUNDAMENTAL CHANGES IN THE DOMESTIC ECONOMY. INDIAN ECONOMIC POLICY HAS GRADUALLY SHIFTED OVER A TWO-YEAR PERIOD IN A PRAGMATIC DIRECTION. THE ANTI-INFLATIONARY PROGRAM,
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CHANGES IN PRICING AND INDUSTRIAL LICENSING, GREATER

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EMPHASIS ON AGRICULTURE, NOT TO SPEAK OF THE MORE
CONTROVERSIAL ACTIONS IN LABOR POLICY, HAVE ALL WORKED
TO PERMIT SOME DEGREE OF ECONOMIC GROWTH. THE FUNDAMENTAL
PROBLEMS OF INDIA OF LOPSIDED ECONOMIC DEVELOPMENT,
INSUFFICIENT EFFECTIVE DOMESTIC DEMAND AND A CORRUPT
AND INEFFECTIVE BUREAUCRATIC SYSTEM REMAIN. MOREOVER,
LITTLE HAS BEEN DONE TO FREE INDIASFROM ITS MAJOR
CONSTRAINT ON GROWTH, ITS DEPENDENCE ON THE MONSOON.

3. EXTERNALLY INDIA FINDS IT HAS HIGHER FOREIGN EXCHANGE
RESERVES THAN AT ANY TIME SINCE 1948. MOREOVER, THE OUTLOOK
FOR THE NEXT FEW YEARS IS POSITIVE. IMPORTS ARE LIKELY
TO DECLINE AS DOMESTIC AVAILABILITY OF PETROLEUM, FERTILIZER,
STEEL AND NON-FERROUS MATERIALS INCREASES WHILE EXPORTS
HABE GROWN AT RECORD LEVELS. FOR EXAMPLE, IN THE FIRST
FIVE MONTHS OF 1976 INDIAN EXPORTS TO THE US INCREASED
BY 85 PERCENT.

4. WHERE DOES THIS LEAVE AID DONORS, BILATERAL OR
MULTILATERAL. WE CONCUR WITH THE WORLD BANK APPROACH THAT
AID TO INDIA SHOULD NO LONGER BE PRIMARILY EVALUATED IN
BALANCE OF PAYMENT TERMS. HOWEVER, INDIA REMAINS AN EXTREMELY
POOR COUNTRY WITH INSUFFICIENT SAVINGS AND CAPITAL, AND AID CAN
SERVE A USEFUL PURPOSE IN RAISING STANDSRDS OF LIVING.
WE THINK THE BROAD PATTERN OF WORLD BANK/IDA ASSISTANCE
TO INDIA IS CORRECT, I.E., EMPHASIS ON AGRICULTURE AND
PROJECTS OF DIRECT BENEFIT TO THE POORER STRATA OF THIS
COUNTRY. WE ARE INCLINED TO THINK THAT THE BANK/IDA
SHOULD, HOWEVER, RECOGNIZE THAT INDIA NO LONGER NEEDS
EXTREMELY SOFT TERMS FOR CERTAIN CATEGORIES OF PROJECTS, E.G.,
POWER AND FERTILIZER PLANTS, WHICH CAN PAY FOR THEMSELVES
AT WORLD BANK OR EVEN COMMERCIAL MONEY MARKET RATES.
PUSHING THE INDIANS IN THIS DIRECTION WOULD NOT ONLY FREE
IDA RESOURCES FOR OTHER SOCIAL INFRUSTRUCTURE PROJECTS
IN INDIA OR ELSEWHERE BUT ALSO IT MIGHT ENCOURAGE THE GOI
TO CONSIDER A WIDE RANGE OF POSSIBILITIES OF BRINGING
PRIVATE (NOT NECESSARILY EQITY) CAPITAL INTO INDIA.
SOME SUGGESTIONS IN THIS CONNECTION ARE CONTAINED IN
NEW DELHI'S A-199.
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